

## Metropolitan King County Council

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**Cheryle A. Broom**  
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## MANAGEMENT LETTER

DATE: July 14, 2004

TO: Metropolitan King County Councilmembers

FROM: Cheryle A. Broom, County Auditor

SUBJECT: Follow-up: Pacific Hospital Preservation and Development Authority Interlocal Agreement

The 2002 Auditor's Office Work Program mandates a follow-up study of charity health care services provided by Pacific Hospital Preservation and Development Authority (PHPDA)<sup>1</sup> pursuant to its interlocal agreement with King County. An earlier study by our office, released in September 2001 (Report No. 2001-03), found that an amendment to this agreement (Amendment 1) relating to charity care had been signed and implemented by PHPDA and the Department of Public Health, but had not been submitted for council review and approval as required by the interlocal agreement. The study also raised concerns that provisions in this amendment might limit the usefulness of annual reports used to track compliance with the interlocal agreement. Recommendations included with the study encouraged Public Health to submit Amendment 1 to the council for review and approval, and to work with PHPDA to ensure that the definitions, source data, and charity care reporting requirements included with the amendment would make it possible to determine compliance with the intent of the original agreement.

Subsequent to our study's release, Public Health and PHPDA, with assistance from the Prosecuting Attorney's Office (PAO), opened negotiations aimed at redrafting Amendment 1 for council consideration. These negotiations were complicated by fiscal and management changes at PHPDA, as well as an operational reorganization there in 2003, which resulted in creation of a non-profit component tasked with meeting the organization's charity care commitments. While the Auditor's Office did not participate in the amendment negotiations, we had the opportunity to comment on several drafts of the amendment and provide input which, according to Public Health, was useful in framing amendment negotiations.

A final amendment has been completed and was recently transmitted to the council. We believe the proposed amendment addresses the recommendations from our earlier report.

### **Substantive Changes to the Interlocal Agreement**

Since the adoption of the original interlocal agreement in 1991, changes in the Washington State statutory definition of 'charity care' and in the Medicare and Medicaid programs have rendered portions of the charity care reporting criteria obsolete. A 1996 executive internal audit

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<sup>1</sup> Formerly referred to as Pacific Medical Center or PacMed.

recommended that these criteria be renegotiated and that the agreement be amended accordingly. Our 2001 audit found that the product of these renegotiations, Amendment 1, which was never approved by the council, made changes that might limit the usefulness of the charity care reports. In particular, that amendment's reporting template did not include the 1988 utilization statistics that were intended to serve as service benchmarks and measures of compliance.

The 1988 utilization statistics included in the original agreement measured levels of care using 'Unduplicated Patient' counts, 'Patient Visit' counts, and dollar values for 'Uncompensated Care.' PHPDA is required to serve indigent clients as well as Medicare and Medicaid recipients. In general, indigent clients are low-income persons with no third party source of payment. Medicare and Medicaid programs, while partially compensated, also represent a cost for PHPDA, as their reimbursement rates for service are relatively low. The 1988 utilization statistics are outlined in Exhibit A below.

<b>EXHIBIT A</b>			
<b>1988 Utilization Statistics</b>			
<u>Program</u>	<u>Unduplicated Patients</u>	<u>Patient Visits</u>	<u>Uncompensated Care</u>
Charity Care:			
Indigent Care	1,100	est. 3,200	\$747,715
Excess Bad Debt			\$567,094
Medicare	1,464	6,736	\$546,984
Medicaid	2,271	7,901	\$554,806
<b>Total</b>			<b>\$2,416,599</b>

Source: Attachment A to the 1991 Interlocal Cooperation Agreement between Pacific Hospital Preservation and Development Authority and King County, Washington.

The current proposed amendment (now titled 'First Amendment to the Interlocal Cooperation Agreement') clarifies that PHPDA must match the 1988 'Unduplicated Patient' counts for indigent persons, as well as Medicare and Medicaid recipients, in order to be in compliance. In addition, PHPDA agrees to provide not less than \$1.5 million in annual uncompensated care in meeting the charity care component of this requirement. This \$1.5 million includes the cost of care for indigent persons, excess bad debt, unreimbursed interpreter services for indigent persons, other community programs (with the permission of Public Health), and 10 percent of PHPDA's cost of serving Medicaid patients. Historically, PHPDA's total costs in these areas have exceeded \$1.5 million. We believe these clarifications provide a solid foundation for monitoring PHPDA's delivery of required charity care.

We appreciate the assistance provided by Public Health, the Executive Internal Auditor, and the PAO in conducting our review. David Reynolds, former Management Auditor, worked on this review. Please contact me at 296-1655 if you have any questions about the issues discussed in this letter.

cc: Ron Sims, County Executive  
 Sheryl Whitney, Assistant County Executive  
 Alonzo Plough, Director, Department of Public Health  
 Steve Call, Budget Director, County Budget Office  
 Norm Maleng, County Prosecuting Attorney  
 Dave Lawson, Executive Internal Audit Manager  
 Shelley Sutton, Policy Staff Director, County Council  
 Michael Alvine, Lead Legislative Analyst, County Council LOT Committee  
 Doug Stevenson, Lead Legislative Analyst, County Council LJHS Committee